

## Message Text

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10  
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00  
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02  
OMB-01 DOE-15 JUSE-00 AF-10 ARA-10 EA-10 EUR-12  
NEA-10 /166 W

-----112774 202313Z /61/43

P 201635Z APR 78  
FM USMISSION GENEVA  
TO SECSTATE WASHDC PRIORITY 8665  
INFO ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 06018

C O R R E C T E D C O P P Y (TEXT GARBLED THROUOGHOUT)

USMTN

PASS ELECTRONICALLY STR (STARKEY) AND USDA (SAYLOR &  
HATHAWAY)

E.O. 11652: N/A  
TAGS: MTN, ETRD  
SUBJECT: NEW ZEALAND PROPOSAL FOR ESTABLISHMENT OF  
MINIMUM PRICES

1. IN A PAPER MADE AVAILABLE TO USDEL THE NEW ZEALAND  
DEL SETS FORTH ITS VIEWS ON THE CRITERIA TO BE USED  
FOR ESTABLISHING MINIMUM PRICES UNDER THE PROPOSED INTER-  
NATIONAL DAIRY ARRANGEMENT. THIS PAPER IS LIKELY TO  
BE SUBMITTED TO THE MEETING OF THE SUBGROUP DAIRY ON  
APRIL 24. FOLLOWING ARE THE SALIENT FEATURES OF THE  
NEW ZEALAND PROPOSAL:

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2. THE PAPER STARTS WITH A CONSIDERATION OF THE FACTORS  
DETERMINING THE PARAMETERS OF INTERNATIONAL MARKET  
PRICES FOR DAIRY PRODUCTS. IT STATES THAT IN THE INTER-  
NATIONAL DAIRY MARKET DEMAND IS COMPARATIVELY STABLE.  
IMPORTS INTO DEVELOPED COUNTRIES ARE TIGHTLY CONTROLLED  
WHILE IMPORTS INTO LDC'S CANNOT BE SUDDENLY EXPANDED  
TO ABSORB INCREASED SUPPLIES. IN A SURPLUS SITUATION

THERE IS A WIDESPREAD INCREASE IN THE USE OF EXPORT SUBSIDIES BY MAJOR NORTHERN HEMISPHERE PRODUCERS. THESE FACTORS ARE THE MAJOR DETERMINANT OF THE INTERNATIONAL PRICES FOR DAIRY PRODUCTS AND ALSO THE MAJOR CAUSE OF MARKET DISRUPTION. IN A SITUATION OF SCARCITY, EXPORT SUBSIDIES ARE REDUCED OR EVEN SUSPENDED TO MAINTAIN DOMESTIC SUPPLIES. INTERNATIONAL EXPORT PRICES CONSEQUENTLY RISE TO THE EQUIVALENT OF THE SUPPORT PRICE LEVELS IN THE NORTHERN HEMISPHERE.

3. AN ATTEMPT TO ESTABLISH INTERNATIONAL MINIMUM PRICES MUST TAKE INTO ACCOUNT THE ROLE OF SUPPORT PRICES AND EXPORT SUBSIDIES IN DETERMINING THE MAXIMUM AND MINIMUM LEVELS OF INTERNATIONAL MARKET PRICES. MINIMUM PRICES WHICH ARE SAID TO PROVIDE EFFECTIVE STABILIZATION AT THE LOWER LIMIT OF MARKET FLUCTUATIONS SHOULD BE REGULARLY UPDATED SO AS TO REFLECT THE CHANGES IN SUPPORT LEVELS WHICH, IN TURN, TEND TO REFLECT GENERAL COST INCREASES. ANY MINIMUM PRICE IN EFFECT SETS A LIMIT TO THE SIZE OF EXPORT SUBSIDIES AND THUS LIMITS THE EFFECTS OF SUBSIDIZED EXPORTS UPON NON-SUBSIDIZED EXPORTERS. IN ORDER TO ESTABLISH STABILITY NON-SUBSIDIZED EXPORTERS MUST BE ASSURED OF A REASONABLE RETURN WHICH WILL ENABLE CONTINUED SALES ON THE INTERNATIONAL MARKET.

4. ONE CRITERION LEADING TO STABILITY WOULD BE THE LIMITED OFFICIAL USE

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RESTORATION OF THE RELATIONSHIP BETWEEN SUPPORT LEVELS AND THE MINIMUM PRICES WHICH PREVAILED WHEN THE LATTER WERE ORIGINALLY ESTABLISHED FOR SKIM MILK POWDER AND ANHYDROUS MILK FAT. THESE INITIAL MINIMUM PRICES REFLECTED WHAT WERE AT THE TIME TOLERABLE LEVELS OF RETURN TO THE MOST EFFICIENT PRODUCERS. THEY ESTABLISHED AN APPROPRIATE FLOOR ON THE MARKET. WHEN THE SKIM MILK POWDER MINIMUM PRICES WERE ESTABLISHED IN 1970, THEY WERE AT A LEVEL CORRESPONDING TO 43 PERCENT OF THE AVERAGE OF THE SUPPORT PRICES IN THE UNITED STATES AND THE EEC. IF THIS RELATIONSHIP HAD BEEN APPLIED TO SUPPORT LEVELS EXISTING IN 1977, THE MINIMUM PRICE FOR SKIM MILK POWDER WOULD HAVE BEEN \$60/100 KG. SIMILARLY, THE MINIMUM PRICE FOR ANHYDROUS MILK FAT IN 1973 CORRESPONDED TO 31 PERCENT OF THE AVERAGE OF THE US AND EC SUPPORT LEVELS FOR BUTTER CONVERTED TO AN ANHYDROUS MILK FAT EQUIVALENT. IF THIS RELATIONSHIP HAD APPLIED IN 1977, THE MINIMUM PRICE FOR ANHYDROUS MILK FAT WOULD AMOUNT TO \$110/100 KG. IN 1978 THIS MINIMUM PRICE WOULD BE AROUND \$93/100 KG. THE SAME CONSIDERATION APPLIES TO THE OECD MINIMUM PRICE FOR WHOLE MILK POWDER WHICH AMOUNTED TO 45 PERCENT OF THE AVERAGES OF THE US/EC

SUPPORT PRICES IN 1970 WOULD YIELD A CURRENT MINIMUM  
PRICE FOR THIS PRODUCT OF \$90/100 KG.

5. A HISTORICAL COMPARISON INDICATES THAT ANNUAL ADJUST-  
MENT BETWEEN 1970 AND 1977 WOULD HAVE ACHIEVED A STEADY  
BUT MODERATE INCREASE IN THE MINIMUM PR ICES WHICH, WHILE  
WELL BELOW INTERNATIONAL MARKET PRICES FOR MUCH OF THE  
TIME, WOULD HAVE PREPARED THE MARKET FOR A 1976 MINIMUM  
PRICE SIGNIFICANTLY HIGHER THAN PROVED TO BE THE CASE.

6. THE NEW ZEALAND PAPER CONCLUDES THAT IT IS NECESSARY  
TO ENSURE THAT THE LEVELS OF THE MINIMUM PRICES TO BE  
ESTABLISHED MAINTAIN THEIR RELATIONSHIP IN THE LIGHT OF  
THE CRITERIA CITED. TO ACHIEVE THIS GOAL THERE SHOULD  
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BE AN ANNUAL REVIEW OF ALL MINIMUM PRICES CONDUCTIVE TO  
THE MAINTENANCE OF A FLOOR PRICE. THIS COULD BE ACHIEVED  
BY MAINTAINING A BROAD RELATIONSHIP WITH SUPPORT LEVELS

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10  
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00  
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02  
OMB-01 DOE-15 JUSE-00 AF-10 ARA-10 EA-10 EUR-12  
NEA-10 /166 W

-----107948 201822Z /43

P 201635Z APR 78  
FM USMISSION GENEVA  
TO SECSTATE WASHDC PRIORITY 8666  
INFO ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 02 OF 02 GENEVA 06018

USMTN

PASS ELECTRONICALLY STR (STARKEY) AND USDA (SAYLOR AND  
HATHAWAY)

IN THE UNITED STATES AND THE EC.

7. DRAFTED BY KOENIG. MCDONALD

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## Message Attributes

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**Channel Indicators:** n/a  
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**Concepts:** STANDARDS, DAIRY PRODUCTS, AGREEMENTS, PRICE CONTROLS, PRICES  
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**Draft Date:** 20 apr 1978  
**Decaption Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
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**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
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**Review Exemptions:** n/a  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014